

## Message Text

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ACTION EUR-12

INFO OCT-01 EA-10 ISO-00 AID-05 CIAE-00 COME-00 EB-08  
FRB-03 INR-10 NSAE-00 ICA-11 XMB-02 OPIC-03 SP-02  
LAB-04 SIL-01 OMB-01 SS-15 STR-07 CEA-01 ABF-01  
/097 W

-----090912 232014Z /73

R 231826Z MAY 78  
FM AMEMBASSY BONN  
TO SECSTATE WASHDC 8799  
DEPARTMENT TREASURY  
INFO WHITE HOUSE WASHDC  
AMEMBASSY BRUSSELS  
AMEMBASSY PARIS  
AMEMBASSY TOKYO  
AMEMBASSY ROME  
AMEMBASSY OTTAWA  
AMEMBASSY LONDON

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WHITE HOUSE FOR OWEN: USOECD ALSO FOR EMBASSY, USEEC

E.O. 11652: N/A  
TAGS: ECON EFIN GW  
SUBJECT: BERLIN ECONOMIC INSTITUTE WANTS MORE  
ATTENTION TO GROWTH AND LESS TO INFLATION

REF: BONN 7454

1. SUMMARY -- BERLIN ECONOMIC INSTITUTE URGES FASTER  
PACE OF GOVERNMENT INVESTMENT TO COMBAT UNEMPLOYMENT;  
BELIEVES CONTINUED FRG PREOCCUPATION WITH INFLATION  
IS BAD POLICY FROM BOTH DOMESTIC AND INTERNATIONAL  
VIEWPOINTS. END SUMMARY.

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2. EMBASSY ECONOFF AND TREASURY DESKOFF FOR FRG  
VISITED GERMAN ECONOMIC RESEARCH INSTITUTE (DIW) AND  
DISCUSSED ECONOMIC POLICY ISSUES WITH STAFF RESPONSIBLE  
FOR ECONOMIC FORECASTING, FOREIGN TRADE, AND EXCHANGE  
RATES. AS REPORTED IN REFTEL, DIW HAS BEEN STRONGLY  
PROMOTING HIGHER VOLUME OF GOVERNMENT INVESTMENT TO  
COMBAT UNEMPLOYMENT. IN TALKS WITH US HEAD OF DIW

FORECASTING DEPARTMENT INDICATED THAT DIW PRIVATELY BELIEVES A MODERATE BOOST IN GOVERNMENT SPENDING (PRIMARILY INVESTMENT) WOULD BE A REALISTIC OBJECTIVE OF ECONOMIC POLICY, RATHER THAN THE MORE AMBITIOUS TARGETS CALLED FOR IN ITS PUBLISHED STUDY. THIS WOULD INVOLVE A CONTINUATION OF THE DM 16 BILLION INVESTMENT PROGRAM BUT WITH EXPENDITURES AT A RATHER MORE RAPID PACE (NOW MOSTLY OVER A TWO YEAR PERIOD), AND SOMEWHAT FASTER EXPANSION OF GOVERNMENT CONSUMPTION.

3. DIW DOES NOT ACCEPT ARGUMENTS ABOUT THE INFLATIONARY CONSEQUENCES OF THESE PROPOSALS FROM OPPONENTS OF HIGHER GOVERNMENT SPENDING. AS DIW SEES IT, THE GERMAN ECONOMY CAN MORE COMFORTABLY LIVE WITH A THREE PERCENT RATE OF INFLATION THAN IT CAN WITH A HIGHER RATE OF UNEMPLOYMENT, WHICH IS WHAT IT WILL HAVE IF GOVERNMENT DOES NOT TAKE A MORE ACTIVE ROLE IN CREATING JOBS FOR MUCH EXPANDED WORKFORCE IN PERIOD 1979-1988. MOREOVER, THE ONLY WAY TO TEST LABOR MARKET SLACK IS TO CREATE ADDITIONAL DEMAND AND SEE WHAT HAPPENS TO WAGE COSTS. DIW WOULD FAVOR ADMISSION OF MORE GUEST WORKERS TO EASE LABOR SUPPLY BOTTLENECKS IN PARTICULAR INDUSTRIES (E.G., IN CONSTRUCTION INDUSTRY WHERE GERMAN LABOR REPUTEDLY IS RELUCTANT TO ACCEPT EMPLOYMENT) IF THIS WOULD FACILITATE OVERALL EXPANSION.

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4. IN DIW'S VIEW, IT WOULD NOT BE SUCH A BAD THING IF SUCH A PROGRAM PREVENTED A FURTHER DECREASE IN THE RATE OF INFLATION. CONVERGENCE OF INFLATION AND GROWTH

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AMEMBASSY LONDON

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RATES AMONG PRINCIPAL TRADING COUNTRIES WOULD  
HELP SETTLE EXCHANGE RATE MARKETS AND THEREBY LIFT  
BUSINESS CONFIDENCE.

5. DIW IS MILDLY OPTIMISTIC THAT FINANCE MINISTER'S  
RECENT REMARKS ABOUT AN EXPANSIONARY 1979 BUDGET INDICATE  
SOME MOVEMENT BY THE GOVERNMENT TOWARD THE DIW POSITION.  
DIW OPPOSES A TAX CUT (AN APPROACH LOOKED UPON WITH  
GREATER FAVOR BY ECONOMICS MINISTER LAMBSDORFF)  
ARGUING THAT THERE IS NO WAY OF KNOWING HOW THE  
ADDITIONAL INCOME WOULD BE USED WHEREAS GOVERNMENT CAN  
DIRECT ITS EXPENDITURES TO OBTAIN THE GREATEST ECONOMIC  
IMPACT.

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6. AS FOR 1978 PERFORMANCE OF THE ECONOMY, DIW BELIEVES  
MUCH WILL HINGE ON COURSE OF DM/DOLLAR EXCHANGE RATE.  
IF DOLLAR CONTINUES TO APPRECIATE, EXPORTS SHOULD  
PERFORM BETTER THAN 3 1/2 PERCENT GROWTH RATE  
ESTIMATED BY DIW AND MANY OTHER FORECASTERS. INVESTMENT  
WOULD ALSO BE ENCOURAGED. ECONOMY WILL ALSO GET SOME  
IMPETUS FROM LATE 1977 ENACTED PROGRAM FOR TAX RELIEF  
AND INCREASED EXPENDITURES. DIW SEES FIRST QUARTER  
GNP (SEASONALLY AND WORKDAY ADJUSTED BASIS) DOWN BY  
ABOUT 1/2 PERCENT FROM FOURTH QUARTER 1977. STRIKES,  
BAD WEATHER, AND EXCHANGE RATE DISTURBANCES, THEY  
ESTIMATE, MEANT A LOSS OF ABOUT ONE PERCENT OF GNP  
DURING FIRST QUARTER, OF WHICH ABOUT HALF SHOULD BE  
MADE UP DURING REST OF 1978.

7. COMMENT -- MATTHOEFER'S RECENT PUBLIC UTTERANCES  
APPEAR TO PROMISE A FISCAL BOOST FOR 1979, BUT NOT  
NECESSARILY BY NEARLY SO MUCH AS FAVORED BY DIW. ALSO  
GOVERNMENT ECONOMIC ANALYSTS ARE SAYING THAT FIRST  
QUARTER MAY NOT TURN OUT AS BADLY AS DIW AND OTHERS  
THINK DESPITE BAD FIRST QUARTER INDUSTRIAL PRODUCTION  
FIGURES. IF THEY ARE RIGHT, ARGUMENTS AGAINST LARGE  
NEW ECONOMIC PROGRAM WILL CARRY GREATER FORCE.  
STOESSEL

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## Message Attributes

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**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
**Concepts:** ECONOMIC GROWTH, POLICIES, ANTIINFLATIONARY PROGRAMS, INVESTMENTS  
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**Copy:** SINGLE  
**Draft Date:** 23 may 1978  
**Decapton Date:** 01 jan 1960  
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**Disposition Approved on Date:**  
**Disposition Case Number:** n/a  
**Disposition Comment:** 25 YEAR REVIEW  
**Disposition Date:** 20 Mar 2014  
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**Document Source:** CORE  
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**Enclosure:** n/a  
**Executive Order:** N/A  
**Errors:** N/A  
**Expiration:**  
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**Review Markings:**  
Sheryl P. Walter  
Declassified/Released  
US Department of State  
EO Systematic Review  
20 Mar 2014  
**Markings:** Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014